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## COMMISSIONERS

BOB STUMP, Chairman  
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2014 AUG 22 P 12:13

ARIZONA CORPORATION COMMISSION  
DOCKET CONTROL

ORIGINAL

IN THE MATTER OF THE APPLICATION OF  
SOUTHWESTERN TELEPHONE COMPANY,  
AN ARIZONA CORPORATION, FOR A  
HEARING TO DETERMINE THE EARNINGS  
OF THE COMPANY, THE FAIR VALUE OF  
THE COMPANY FOR RATEMAKING  
PURPOSES, AND TO INCREASE  
RESIDENTIAL RATES AS NECESSARY TO  
COMPENSATE FOR THE RATE IMPACTS OF  
THE FCC'S USF/ICC TRANSFORMATION  
ORDER

DOCKET NO. T-01072A-13-0412

**RESPONSE TO PROCEDURAL  
ORDER**

Arizona Corporation Commission

**DOCKETED**

AUG 22 2014

DOCKETED BY

1 Southwestern Telephone Company ("Southwestern Telephone") hereby responds to the  
2 following requests in Judge Rodda's August 7, 2014, Procedural Order in the above-captioned  
3 docket. Specifically, the Order stated that Southwestern Telephone:

4 should update its schedules to show the pro forma effects on revenues if  
5 residential access rates are increased to \$16, \$18 and \$20, and to also show the  
6 effect on operations if residential rates remain at \$14/month and the federal  
7 benchmark is \$16, \$18 and \$20/ month; and shall update the exhibit that shows a  
8 typical residential rate at the requested rates.

9 Attached hereto is a sheet summarizing returns for each of the six cases, followed by a  
10 revised exhibit that shows total residential rates at the \$16, \$18, and \$20 base rates, detailed rate  
11 design exhibits at the three rates, and exhibits that detail the loss of high-cost loop support at the  
12 new benchmarks if rates were not raised.

13 The requested increases (to \$16, \$18, and \$20) are just and reasonable because, if they  
14 were not authorized, Southwestern Telephone would lose federal high-cost loop support funds  
15 and further reduce revenues below the levels that would be required for Southwestern Telephone  
16 to earn its authorized rate of return.

1 Respectfully submitted on August 22, 2014.  
2  
3  
4

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**Original and 13 copies filed**  
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# Southwestern Telephone Company

REGULATED RESULTS OF OPERATIONS FOR TWELVE MONTHS ENDING JUNE 30, 2013  
REFLECTS CHANGES EFFECTIVE WITH ARC AND CAF IMPLEMENTATION - YEAR 2  
COMPARISON OF VARIOUS RATE AND BENCHMARK SCENARIOS

		INTRASTATE		INTRASTATE		INTRASTATE		INTRASTATE		INTRASTATE		INTRASTATE		INTRASTATE		INTRASTATE	
		Base Case		Case 1		Case 2		Case 3		Case 4		Case 5		Case 6			
		\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$		
		14.00	16.00	14.00	16.00	18.00	20.00	18.00	20.00	16.00	18.00	14.00	16.00	14.00	20.00		
		(f)	(f)	(f)	(f)	(f)	(f)	(f)	(f)	(f)	(f)	(f)	(f)	(f)	(f)		
1	Local	695,034	695,034	695,034	695,034	695,034	695,034	695,034	695,034	695,034	695,034	695,034	695,034	695,034	695,034		
2	Universal Service Fund (USF-HCL) and Safety Net Additive (SNA)	385,743	385,743	385,743	385,743	385,743	385,743	385,743	385,743	385,743	385,743	385,743	385,743	385,743	385,743		
3	Access Revenues	490,375	490,375	490,375	490,375	490,375	490,375	490,375	490,375	490,375	490,375	490,375	490,375	490,375	490,375		
4	Billing & Collecting	17,583	17,583	17,583	17,583	17,583	17,583	17,583	17,583	17,583	17,583	17,583	17,583	17,583	17,583		
5	Other Misc., Uncollectibles	50,159	50,159	50,159	50,159	50,159	50,159	50,159	50,159	50,159	50,159	50,159	50,159	50,159	50,159		
6	Total Operating Revenues	1,638,894	1,638,894	1,638,894	1,638,894	1,638,894	1,638,894	1,638,894	1,638,894	1,638,894	1,638,894	1,638,894	1,638,894	1,638,894	1,638,894		
7	Plant Specific Expenses	365,039	365,039	365,039	365,039	365,039	365,039	365,039	365,039	365,039	365,039	365,039	365,039	365,039	365,039		
8	Plant Nonspecific Expenses	129,505	129,505	129,505	129,505	129,505	129,505	129,505	129,505	129,505	129,505	129,505	129,505	129,505	129,505		
9	Depreciation & Amortization Expenses	613,515	613,515	613,515	613,515	613,515	613,515	613,515	613,515	613,515	613,515	613,515	613,515	613,515	613,515		
10	Customer Operations Expenses	210,290	210,290	210,290	210,290	210,290	210,290	210,290	210,290	210,290	210,290	210,290	210,290	210,290	210,290		
11	Corporate Operations Expenses	277,502	277,502	277,502	277,502	277,502	277,502	277,502	277,502	277,502	277,502	277,502	277,502	277,502	277,502		
12	Other Operating Taxes and (Income)	94,411	94,411	94,411	94,411	94,411	94,411	94,411	94,411	94,411	94,411	94,411	94,411	94,411	94,411		
13	Nonregulated Adjustment																
14	Total Operating Expenses	1,690,262	1,690,262	1,690,262	1,690,262	1,690,262	1,690,262	1,690,262	1,690,262	1,690,262	1,690,262	1,690,262	1,690,262	1,690,262	1,690,262		
15	OPERATING RETURN BEFORE TAXES	(51,368)	(51,368)	(51,368)	(51,368)	(51,368)	(51,368)	(51,368)	(51,368)	(51,368)	(51,368)	(51,368)	(51,368)	(51,368)	(51,368)		
16	State Income Taxes (SIT) (6.97%)	(3,580)	(3,580)	(3,580)	(3,580)	(3,580)	(3,580)	(3,580)	(3,580)	(3,580)	(3,580)	(3,580)	(3,580)	(3,580)	(3,580)		
17	Federal Income Taxes (FIT) (35%)	(16,726)	(16,726)	(16,726)	(16,726)	(16,726)	(16,726)	(16,726)	(16,726)	(16,726)	(16,726)	(16,726)	(16,726)	(16,726)	(16,726)		
18	Total Operating Income Taxes	(20,306)	(20,306)	(20,306)	(20,306)	(20,306)	(20,306)	(20,306)	(20,306)	(20,306)	(20,306)	(20,306)	(20,306)	(20,306)	(20,306)		
19	Total Expenses and Income Taxes	1,669,956	1,669,956	1,669,956	1,669,956	1,669,956	1,669,956	1,669,956	1,669,956	1,669,956	1,669,956	1,669,956	1,669,956	1,669,956	1,669,956		
20	Net Operating Income	(31,062)	(31,062)	(31,062)	(31,062)	(31,062)	(31,062)	(31,062)	(31,062)	(31,062)	(31,062)	(31,062)	(31,062)	(31,062)	(31,062)		
21	Total Year-End Avg Rate Base	2,138,418	2,138,418	2,138,418	2,138,418	2,138,418	2,138,418	2,138,418	2,138,418	2,138,418	2,138,418	2,138,418	2,138,418	2,138,418	2,138,418		
22	Return on Rate Base (Ln 20 / Ln 21)	-1.50%	-1.50%	-1.50%	-1.50%	-1.50%	-1.50%	-1.50%	-1.50%	-1.50%	-1.50%	-1.50%	-1.50%	-1.50%	-1.50%		
23	Estimated Revenue from Local Rate Increase	0	34,944	0	34,944	69,888	104,832	0	104,832	0	34,944	0	69,888	0	104,832		
24	Estimated Annual Reduction in High-Cost Loop Support	0	0	0	0	0	0	0	0	0	0	0	0	0	0		
25	State Income Taxes (SIT) (6.97%)	-	2,436	-	2,436	4,871	7,307	-	7,307	-	2,436	-	4,871	-	7,307		
26	Federal Income Taxes (FIT) (35%)	-	11,378	-	11,378	22,756	34,134	-	34,134	-	11,378	-	22,756	-	34,134		
27	Increase in Net Operating Income	0	21,130	0	21,130	42,261	63,391	0	63,391	0	21,130	0	42,261	0	63,391		
28	Net Operating Income After Increase (Ln 20 + Ln 26)	(31,062)	(9,932)	(9,932)	(9,932)	11,199	32,329	(31,062)	32,329	(31,062)	(9,932)	(31,062)	(9,932)	(31,062)	(9,932)		
29	Return on Rate Base After Increase (Ln 27 / Ln 21)	-1.50%	-0.50%	-0.50%	-0.50%	0.50%	1.50%	-1.50%	1.50%	-1.50%	-0.50%	-1.50%	-0.50%	-1.50%	-0.50%		

# Southwestern Telephone Company

## Typical Charges for Subscribers to Basic Residential Service Comparison of Effect in Various Rate Scenarios

	Base Case	Case 1	Case 2	Case 3
Local Service Rate	\$ 14.00	\$ 16.00	\$ 18.00	\$ 20.00
AZ USF Surcharge	0.01	0.01	0.01	0.01
Federal SLC Charge	6.50	6.50	6.50	6.50
Access Recovery Charge (ARC)	1.50	1.50	1.50	1.50
Federal USF Charge	1.26	1.26	1.26	1.26
State 911 Tax	0.20	0.20	0.20	0.20
Federal Excise Tax	0.66	0.72	0.78	0.84
AZ Sales Tax	0.78	0.90	1.01	1.12
County Tax	0.28	0.32	0.36	0.40
City Tax	0.35	0.40	0.45	0.50
TDD Tax	0.15	0.18	0.20	0.22
ACC Tax	0.03	0.03	0.04	0.04
Total	\$ 25.72	\$ 28.01	30.30	32.59

Federal USF surcharge applies to Fed SLC and ARC charges.

# Southwestern Telephone Company

Proposed Rate Design

June 30, 2013 TTM Average Units\*

(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)
Service Description	Units	Average Assumed Actual Rates	Annual Revenues	Assumed Benchmark Rates	Annual Revenues	Proposed Change Revenue	Percent
<b>Basic Service</b>							
Base Case							
Residence One-Party	1,456	\$ 14.00	\$ 244,608	\$ 14.00	\$ 244,608	\$ -	0.00%
Residence Two-Party	-	\$ 14.00	\$ -	\$ 14.00	\$ -	\$ -	0.00%
Estimated Revenue from Local Rate Increase							
Case 1							
Residence One-Party	1,456	\$ 16.00	\$ 279,552	\$ 16.00	\$ 279,552	\$ -	0.00%
Residence Two-Party	-	\$ 16.00	\$ -	\$ 16.00	\$ -	\$ -	0.00%
Estimated Revenue from Local Rate Increase							
Case 2							
Residence One-Party	1,456	\$ 18.00	\$ 314,496	\$ 18.00	\$ 314,496	\$ -	0.00%
Residence Two-Party	-	\$ 18.00	\$ -	\$ 18.00	\$ -	\$ -	0.00%
Estimated Revenue from Local Rate Increase							
Case 3							
Residence One-Party	1,456	\$ 20.00	\$ 349,440	\$ 20.00	\$ 349,440	\$ -	0.00%
Residence Two-Party	-	\$ 20.00	\$ -	\$ 20.00	\$ -	\$ -	0.00%
Estimated Revenue from Local Rate Increase							
Case 4							
Residence One-Party	1,456	\$ 14.00	\$ 244,608	\$ 16.00	\$ 279,552	\$ 34,944	14.29%
Residence Two-Party	-	\$ 14.00	\$ -	\$ 16.00	\$ -	\$ 34,944	14.29%
Estimated Revenue from Local Rate Increase							
Case 5							
Residence One-Party	1,456	\$ 14.00	\$ 244,608	\$ 18.00	\$ 314,496	\$ 69,888	28.57%
Residence Two-Party	-	\$ 14.00	\$ -	\$ 18.00	\$ -	\$ 69,888	28.57%
Estimated Revenue from Local Rate Increase							
Case 6							
Residence One-Party	1,456	\$ 14.00	\$ 244,608	\$ 20.00	\$ 349,440	\$ 104,832	42.86%
Residence Two-Party	-	\$ 14.00	\$ -	\$ 20.00	\$ -	\$ 104,832	42.86%
Estimated Revenue from Local Rate Increase							

Notes:

\*Average units are used to capture seasonal fluctuations.

(a) No reduction made for line loss.

<b>Residential Lines</b>												
Year	Type	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov
2009	One-Party	2,916	2,982	2,964	2,492	1,759	1,556	1,481	1,443	1,449	1,609	2,179
2009	Two-Party	5	5	4	4	4	4	4	4	4	4	4
2009	<b>Total</b>	2,921	2,987	2,968	2,496	1,763	1,560	1,485	1,447	1,453	1,613	2,183
2010	One-Party	2,613	2,667	2,647	2,249	1,584	1,425	1,345	1,320	1,338	1,473	1,989
2010	Two-Party	4	4	4	4	4	4	4	4	4	4	4
2010	<b>Total</b>	2,617	2,671	2,651	2,253	1,588	1,429	1,349	1,324	1,342	1,475	1,991
2011	One-Party	2,317	2,376	2,343	2,033	1,501	1,324	1,242	1,225	1,223	1,339	1,752
2011	Two-Party	2	2	2	2	2	2	2	2	2	2	2
2011	<b>Total</b>	2,319	2,378	2,345	2,035	1,503	1,326	1,244	1,227	1,225	1,341	1,754
2012	One-Party	2,066	2,095	2,067	1,798	1,363	1,208	1,144	1,128	1,119	1,216	1,562
2012	Two-Party	2	2	2	2	2	2	2	2	2	2	2
2012	<b>Total</b>	2,068	2,097	2,069	1,800	1,365	1,210	1,146	1,130	1,121	1,218	1,564
2013	One-Party	1,823	1,884	1,854	1,600	1,248	1,125	-	-	-	-	-
2013	Two-Party	-	-	-	-	-	-	-	-	-	-	-
2013	<b>Total</b>	1,823	1,884	1,854	1,600	1,248	1,125	-	-	-	-	-

**Southwestern Telephone Company****Proposed Rate Design****Estimated Reduction In Federal High-Cost Loop Support**

Average Residence One-Party		1,456
FCC Benchmark Rate	16.00	
Present Rate	<u>14.00</u>	
Deficiency in Rate		<u>2.00</u>
Reduction in High Cost Loop Support per month		<u>2,912.00</u>
Reduction in High Cost Loop Support per year		<u>34,944.00</u>

Average Residence One-Party		1,456
FCC Benchmark Rate	18.00	
Present Rate	<u>14.00</u>	
Deficiency in Rate		<u>4.00</u>
Reduction in High Cost Loop Support per month		<u>5,824.00</u>
Reduction in High Cost Loop Support per year		<u>69,888.00</u>

Average Residence One-Party		1,456
FCC Benchmark Rate	20.00	
Present Rate	<u>14.00</u>	
Deficiency in Rate		<u>6.00</u>
Reduction in High Cost Loop Support per month		<u>8,736.00</u>
Reduction in High Cost Loop Support per year		<u>104,832.00</u>